

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First United Corporation (First United Bank & Trust)

Point of Contact:	Carissa Rodeheaver	RSSD: (For Bank Holding Companies)	1132672
UST Sequence Number:	385	Docket Number: (For Thrift Holding Companies)	N/A
CPP/CDCI Funds Received:	30,000,000	FDIC Certificate Number: (For Depository Institutions)	4857
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	January 30, 2009	City:	Oakland
Date Repaid ¹ :	N/A	State:	Maryland

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

The Bank was able to continue to make loans to creditworthy borrowers in 2010.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

In 2010, approximately \$60.4 million in new loans were made to consumers (62% secured by real estate and 38% auto loans) and \$70.5 million were made to businesses (47% secured by real estate and 53% business loans).

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☐ Increase securities purchased (ABS, MBS, etc.).

☒ Make other investments.

The Bank was able to commit to a \$6 million investment in a low income housing tax credit project in its jurisdiction in 2009 which it fully funded in 2010.

☒ Increase reserves for non-performing assets.

The Bank increased its allowance for loan losses by a net \$2.0 million in 2010 to \$20.1 million, increasing its coverage of the loan portfolio from 1.79% at December 2009 to 2.19% at December 2010.

☒ Reduce borrowings.

The Corporation reduced its short and long term borrowing positions by \$35.9 million during 2010.

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☒ **Increase charge-offs.**

In 2010, the Corporation recognized \$13.7 million in credit losses on loans and, \$8.4 million in "other than temporary" credit losses on investment securities, and \$3.5 million in losses and write downs on Other Real Estate Owned.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☒ **Held as non-leveraged increase to total capital.**

In January 2009, the CPP capital was brought in at the holding company level as a "buffer" to existing well-capitalized levels, and was pushed down to the Bank in March 2009. The CPP capital enabled the Corporation to remain above regulatory requirements throughout 2009 and 2010.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The Corporation issued \$30 million in preferred stock to the US Treasury in January 2009 under the CPP program. At December 31, 2008, the Corporation and the Bank maintained capital levels that exceeded the amounts to be considered "well-capitalized" under applicable regulatory requirements. Initially, the CPP capital provided an additional "buffer" to these capital levels. During 2009 and 2010, the Bank recorded provisions for loan credit losses of \$31.3 million, "other than temporary impairment" credit losses on its investment securities portfolio of \$35.1 million, and \$3.5 million in losses and write downs on Other Real Estate Owned. The capital buffer provided by the CPP capital enabled the Corporation and the Bank to remain above applicable regulatory capital requirements throughout 2009 and 2010 despite these reductions to its income that were a direct consequence of the economic environment that persisted through 2010. The Corporation was then able to take a methodical approach to raising incremental capital - raising a total of \$10.5 million in capital via trust preferred securities issued to private investors in fourth quarter 2009 and first quarter 2010. The CPP capital enabled the Bank to continue its ability to lend to creditworthy consumer and small business customers. Approximately 7,000 new loans totalling \$381 million have been made to consumers and businesses since receipt of CPP capital. While this represents a decline in the number and amount of new loans from 2008 levels, the Bank was able to successfully compete in its marketplace that experienced a reduced demand for the types of loans that the Bank originates. Additionally, the mix of new loan production aided in shifting the overall mix of the Bank's loan portfolio which helped to reduce concentrations in certain commercial real estate sectors.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

None.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

None.